

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 USIA-15 AID-05

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 PRS-01 PA-02 L-03 H-02 SEC-01 AF-08

FTC-01 JUSE-00 /121 W

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R 031620Z DEC 76

FM AMCONSUL TURIN

TO SECSTATE WASHDC 0638

AMEMBASSY ROME

INFO AMCONSUL FLORENCE

AMCONSUL GENOA

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO

AMCONSUL TRIESTE

AMEMBASSY TRIPOLI

UNCLAS SECTION 1 OF 2 TURIN 0419

E.O. 11652: N/A

TAGS: EFIN, EINV, ECON, IT, LY

SUBJECT: LIBYAN ASSISTANCE TO FIAT

REF: A. TURIN/ROME TELCON 12/1

B. TURIN 0417

SUMMARY. FIAT S SURPRISE ANNOUNCEMENT CONCERNING MAJOR INVESTMENT BY LIBYAN ARAB FOREIGN BANK (REFTEL) INTO FIAT S.P.A. HOLDING HAS RESULTED IN BUSINESS SPECULATION IN TURIN CONCERNING FUTURE INTENTIONS OF FIAT AND POSSIBLY OTHER MAJOR INVESTMENTS BY LIBYAN GOVERNMENT IN FIAT. ISSUE HAS ALSO BEEN RAISED AS TO ITALIAN GOVERNMENT INFLUENCE IN INITIATION OF AGREEMENT.

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TOP-LEVEL FIAT EXECUTIVES INSIST THAT AGREEMENT IS ONE

SHOT DEAL, WAS INITIATED PURELY FOR FINANCIAL REASONS, AND RESULTED IN LARGE PART FROM LIBYAN DESIRE TO DIVERSIFY FINANCIAL HOLDINGS ABROAD AND MOVE SOMEWHAT CLOSER TO THE WEST. END SUMMARY

1. E/C OFFICER MET DEC. 2 WITH CESARE ROMITI, FIAT MANAGING DIRECTOR AND MEMBER OF FIAT S EXECUTIVE BOARD AND ALSO FRANCESCO PAOLO MATTIOLI, DIRECTOR OF FINANCIAL AFFAIRS OF FIAT TO DISCUSS SIGNIFICANCE OF LIBYAN ARAB FOREIGN BANK DOL 415 MILLION INVESTMENT IN FIAT, S.M.A., WHICH IS OVERALL FIAT HOLDING COMPANY UNDER WHICH FALLS AUTOMOTIVE GROUP AND TEN OTHER GROUPS IN VARIOUS ACTIVITIES.

2. IN COURSE OF 70-MINUTE DISCUSSION (WHICH WAS REPEATEDLY INTERRUPTED BY PHONE CALLS FROM MAJOR ITALIAN FINANCIAL INTERESTS, INCLUDING ITALIAN STOCK MARKET FIGURES) DR. ROMITI OUTLINED SIGNIFICANT POINTS OF THE AGREEMENT AND THEIR OVER-ALL IMPLICATIONS FOR BOTH FIAT AND THE LIBYAN GOVERNMENT.

3. UNDER THE AGREEMENT, WHICH WILL BE TRANSACTED IN TWO PHASES, FIAT'S PRESENT CAPITAL STOCK, VALUED AT 150 BILLION LIRE WILL INCREASE TO 165 BILLION AS A RESULT OF LIBYAN PURCHASE OF NEW FIAT STOCK. THE LIBYAN GOVERNMENT HAS ALSO AGREED TO LEND FIAT DOLS 104 MILLION WHICH WILL BE DEPOSITED IN THE BANK OF ITALY, AS WELL AS PROVIDE FOR A DEBENTURE LOAN OF 90 BILLION LIRE. THE COMPLETE TRANSACTION WILL BE CONDUCTED IN TWO PHASES. THE TOTAL TRANSACTION IS EXPECTED TO BE EXECUTED BETWEEN 1978-1982. THE FIRST PHASE OF THE AGREEMENT WILL ALLOW LIBYA TO RECEIVE 20 MILLION OF FIAT S ORDINARY STOCK AND 10 MILLION OF ITS PREFERRED STOCK, THUS GIVING LIBYA AN INITIAL 9.5 PERCENT SHARE OF FIAT STOCK OR THE SECOND LARGEST INDIVIDUAL HOLDING AFTER I.F.I., ISTITUTO FINANZIARIO INDUSTRIALE -- THE FINANCIAL ARM OF FIAT AND THE AGNELLI FAMILY. THE SECOND PHASE OF THE AGREEMENT GIVES THE LIBYAN GOVERNMENT THE OPTION OF CONVERTING THE 90 BILLION LIRE DEBENTURE INTO FIAT STOCK LIMITED TO AN EVENTUAL TOTAL OF 30 MILLION ORDINARY AND 15 MILLION PREFERRED SHARES, INCREASING LIBYA S SHARE TO A MAXIMUM OF 13 PERCENT (LEAVING IFI WITH 29 PERCENT, STILL SOMEWHAT ABOVE THE 27.9 PERCENT IFI TELLS US IT HELD TWO YEARS AGO). A FULL, REGULAR STOCK-UNCLASSIFIED

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HOLDERS MEETING HAS BEEN CALLED FOR JAN. 18 AND 19 TO GIVE FINAL APPROVAL TO THE DEAL.

4. DR. ROMITI, WHO IS CONSIDERED FIAT S FINANCIAL GENIUS, EMPHASIZED THE PURELY FINANCIAL MOTIVES OF THE AGREEMENT AND FIRMLY DISCOUNTED SPECULATION REGARDING POSSIBLE POLITICAL INTENTIONS OF THE LIBYAN GOVERNMENT. HE NOTED THAT FIAT WAS NOT VULNERABLE IN ANY WAY UNDER

THE AGREEMENT AND THAT UNLIKE OTHER MAJOR EUROPEAN COMPANIES WHO HAD GONE INTO AGREEMENTS WITH ARAB COUNTRIES, FIAT DID NOT SELL ANY OF ITS ASSETS, BUT IN FACT HAD INCREASED THEM. HE ALSO POINTED OUT THAT THE LIBYAN SHARE IN FIAT WAS SO MARGINAL THAT LIBYA HAD VIRTUALLY NO POWER IN DECISIONS CONCERNING THE FUTURE DIRECTION OF THE COMPANY.

5. IN RESPONSE TO OUR QUESTION WHY FIAT HAD DECIDED TO MAKE THIS AGREEMENT WITH LIBYA INSTEAD OF ANOTHER FINANCIALLY SOUND ARAB COUNTRY WITH LESS NOTORIETY, ROMITI POINTED OUT THE HISTORICAL COMMERCIAL TIES THE TWO COUNTRIES HAD AS WELL AS THEIR GEOGRAPHICAL PROXIMITY. HE ALSO NOTED THAT HE FELT THE AGREEMENT WAS AN ATTEMPT BY THE LIBYAN GOVERNMENT TO INITIATE SERIOUS AND SOUND RELATIONS WITH THE WESTERN WORLD. ROMITI TOOK PAINS TO NOTE THAT HE DID NOT FEEL THAT ANY SERIOUS REPERCUSSIONS COULD RESULT FROM THE AGREEMENT. CONSIDERING LIBYA S PAST HISTORY, HOWEVER, UNDER THE TERMS OF THE AGREEMENT, ALL OF FIAT S CAPITAL WOULD REMAIN IN ITALY AND SHOULD ANYTHING OCCUR THAT WOULD ABROGATE THE AGREEMENT , FIAT HAD THE OPTION OF RETAINING COMPLETE CONTROL OF THE LIBYAN SHARES.

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6. COMMENT

A. ROMITI AND SEVERAL OTHER CONTACTS IN FIAT HAVE BEEN CONSISTENT IN EMPHASIZING THE PURELY FINANCIAL INTEREST OF FIAT AND THE LIBYAN GOVERNMENT. THEY ALSO CONSISTENTLY STRESS THE POSITIVE IMPLICATIONS THIS TRANSACTION WOULD HAVE ON ITALY S BALANCE OF PAYMENTS DEFICIT WHICH THEY ESTIMATED AT 1.8 BILLION DOLS SINCE LIBYA S INVESTMENT AMOUNTS TO ALMOST ONE-QUARTER OF ITALY S DEFICIT. ROMITI ALSO MADE INDIRECT STATEMENT CONCERNING THE IMPACT OF THIS AGREEMENT ON THE FUTURE STABILITY OF THE LIRA SUGGESTING THAT THE ITALIAN GOVERNMENT MAY HAVE PLAYED A ROLE IN THE INITIATION OF THE AGREEMENT
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(ALTHOUGH OTHER KNOWLEDGEABLE SOURCES DENY THIS).

B. ROMITI AVOIDED SERIOUS DISCUSSIONS OF THE ROLE THAT THE LIBYAN REPRESENTATIVES (TWO ON THE 15-MEMBER BOARD, ONE ON THE TOP-LEVEL FIVE-MEMBER EXECUTIVE BOARD) WOULD PLAY ON THE FIAT EXECUTIVE BOARDS. THE TOP-LEVEL BOARD IS CONSIDERED THE MOST IMPORTANT DECISION-MAKING BODY OF THE FIAT GROUP AND WHILE ROMITI POINTED OUT THAT LIBYA WOULD HAVE ONLY A MINORITY REPRESENTATION, IN THE PAST, THE PERSONS SITTING ON THIS BOARD HAVE BEEN A VERY SELECT GROUP AND HAVE EXERTED MAJOR INFLUENCE ON FIAT S POLICY DECISIONS.

C. WHILE SPECULATION OF ALL SORTS FOLLOWED THE ANNOUNCEMENT, ONE PARTICULARLY DISTURBING SUSPICION HAS BEEN VOICED TO US ON TWO SEPARATE OCCASIONS BY TWO WELL-KNOWN TURIN BUSINESSMEN. THEY HAVE EXPRESSED STRONGLY NEGATIVE SENTIMENTS CONCERNING FUTURE MAJOR INVESTMENTS IN ITALY AT THIS TIME AND SUGGEST THE MOVE OF A MULTINATIONAL SUCH AS FIAT MUST THEREFORE INDICATE DESIRE OF AGNELLI FAMILY TO OBTAIN NEW CAPITAL TO INVEST ELSEWHERE OUTSIDE ITALY. AGNELLI, HIMSELF, WHEN ASKED DURING THE PRESS CONFERENCE ABOUT USE OF THE NEW CAPITAL IN ITALY AND MORE SPECIFICALLY IN SOUTHERN ITALY, REPLIED BRIEFLY AND RATHER EVASIVELY THAT FIAT

OF COURSE OWES ITS NEW PARTNERS, FOR WHOM PROFIT IS THE ESSENTIAL TARGET, TO CONSIDER THE MOST REMUNERATIVE MEANS OF INVESTING CORPORATE CAPITAL. THIS STATEMENT INCREASED SUSPICION THAT FUTURE INVESTMENT MAY BE DIVERTED FROM ITALIAN MARKET IF THIS DOES NOT PROVE SUFFICIENTLY REWARDING. THE SUDDEN AND UNEXPECTED OUSTER OF CARLO DE BENEDETTI FROM FIAT S MANAGEMENT TWO MONTHS AGO, ONLY SIX MONTHS AFTER AGNELLI HAD BROUGHT HIM IN, ALSO FEEDS THESE SUSPICIONS, I.E., IT IS NOW SPECULATED THAT DE BENEDETTI DISAGREED WITH THE THEN SECRET INITIATIVE VIS-A-VIS LIBYA OR THT HE WANTED MORE EMPHASIS ON EFFORTS IN ITALY AS OPPOSED TO EXPANDED INVESTMENTS ABROAD.

D. IN LATER DISCUSSION WITH US, HIGHLY KNOWLEDGEABLE SOURCE DENIED FIAT HAD INTENTION TO INVEST SUCH NEW UNCLASSIFIED

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CAPITAL ABROAD AND POINTED OUT THAT IN THE PAST MOST OF FIAT S INVESTMENTS HAD BEEN MADE IN ITALY AND THAT THIS WOULD CONTINUE TO BE THE CASE. SOURCE ALSO STRONGLY DENIED AGNELLI FAMILY INTENDED TO REDUCE ITS INTEREST IN FIAT AND POINTED TO ACTUAL INCREASE IN FAMILY SHARE OVER PAST TWO YEARS.

E. VERY RESTRICTED MEMBERS OF LIBYAN NEGOTIATORS (BOTH SAID TO BE HARVARD BUSINESS SCHOOL GRADUATES) ARE KNOWN TO HAVE BEEN ASTUTE AND KNOWLEGEABLE. FIAT EXPECTS NEW BOARD MEMBERS TO BE SAME PERSONS OR THOSE OF SIMILAR SERIOUS AND RESPONSIBLE CHARACTER, PARTICULARLY SINCE IT IS SAID THAT LIBYA WAS THE MORE EAGER PARTNER IN THIS MARRIAGE IN ORDER TO DIVERSIFY ITS FOREIGN PLACEMENTS AND ALSO TO BRIGHTEN ITS TARNISHED IMAGE IN THE WEST.

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